

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES                    )  
OF RIVER BLUFFS, INC.                    ) CASE NO. 8489

O R D E R

On March 29, 1982, River Bluffs, Incorporated, ("River Bluffs") filed its application with the Commission for authority to increase the rate charged customers for sewer service. The proposed rate would produce an increase in revenues of \$23,514. The Commission in this Order has allowed River Bluffs an increase of \$21,368.

In order to determine the reasonableness of the proposed rate, a hearing was held on July 14, 1982, at the Commission's offices in Frankfort, Kentucky. The Consumer Protection Division of the Attorney General's Office was the only party to intervene. All information requested has been submitted.

TEST PERIOD

The Commission has accepted the 12-month period ending December 31, 1981, as the test period in this case.

VALUATION METHOD

River Bluffs proposed and the Commission has accepted the operating ratio method as the basis for determining rates in this matter. The Commission has used this method in determining rates

for most sewer utilities under its jurisdiction for several years and finds the results have been reasonable and fair to both utilities and ratepayers. Therefore, the Commission, after consideration of various methods, will use the operating ratio method calculated as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

#### REVENUES AND EXPENSES

River Bluffs proposed several proforma adjustments to its income statement to reflect current operating conditions more accurately. The Commission has accepted the proposed adjustments with the following exceptions:

#### Treatment Expense

River Bluffs proposed to increase treatment expense by \$1,961 over the test period level of \$8,144 to reflect the increase in routine maintenance fees charged by Eubank-Hall and Associates from \$150 to \$250 per month and to reflect the expected general escalation in supplies expense and equipment rentals. The Commission has determined that the evidence of record does not support or document any increase in supplies expense and equipment rentals. Therefore, the Commission has reduced the adjustment to treatment expenses by \$761 to allow only the annual increase of \$1,200 in the routine maintenance fees charged by Eubank-Hall.

#### Capital Recovery

River Bluffs proposed to make certain repairs and improvements to its system. The Commission has reviewed River Bluffs'

proposal and is of the opinion that these repairs and improvements are necessary to ensure continued reliable service to River Bluffs' customers.

The total cost of these repairs and improvements to the system is \$9,300. River Bluffs proposed to amortize this cost over a 3-year period. The Commission is of the opinion that the system improvements will provide more lasting benefit and that a composite recovery period of 5 years is appropriate.

Moreover, River Bluffs stated that it expected to be able to finance the cost of the repairs and improvements at an interest rate of 19 percent. While this is a high rate of interest at this time the Commission after considering the financial circumstances of River Bluffs, has allowed interest expenses of \$1,767. Should River Bluffs finance the loan at a lower rate of interest the Commission should be notified immediately.

Thus, River Bluff's adjusted test period revenues and expenses are as follows:

	<u>Per Books</u>	<u>Adjustments</u>	<u>Adjusted</u>
Operating Revenues	\$ 15,306	\$ -0-	\$ 15,306
Operating Expenses	19,821	9,766	29,587
Operating Income (Loss)	<u>\$ (4,515)</u>	<u>\$ (9,766)</u>	<u>\$ (14,281)</u>
Interest Expense	<u>\$ -0-</u>	<u>\$ 1,767</u>	<u>\$ 1,767</u>
Net Income (Loss)	<u>\$ (4,515)</u>	<u>\$ (11,533)</u>	<u>\$ (16,048)</u>

#### REVENUE REQUIREMENT

The Commission is of the opinion that a fair, just and reaonsable operating ratio is 88 percent in that it will provide a reasonable return to River Bluffs' owners. Therefore, the Commission finds that River Bluffs is entitled to increase its rates

to produce total revenues of \$36,674<sup>(1)</sup> or an increase of \$21,368 which includes an allowance for state and federal income taxes and Jefferson County taxes of \$1,131.

SUMMARY

The Commission, after considering the evidence of record and being advised, finds that:

(1) The rate in Appendix A is the fair, just and reasonable rate to charge for sewer service rendered to River Bluffs' customers and should produce annual revenues of approximately \$36,674.

(2) The rate proposed by River Bluffs will produce revenues in excess of the revenues found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that River Bluffs be and it hereby is authorized to place into effect the rate in Appendix A for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that the proposed rate be and it hereby is denied.

IT IS FURTHER ORDERED that within 20 days of the date of this Order, River Bluffs shall file its tariffs setting out the rate approved in Appendix A.

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(1)  $\$29,587 + \$1,131 = \$30,718 \div 88\% = \$34,907 + \$1,767 = \$36,674.$

Done at Frankfort, Kentucky, this 30th day of August, 1982.

PUBLIC SERVICE COMMISSION

Marlin W. Webb  
Chairman

Katharine Randall  
Vice Chairman

Don Carver  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8489 DATED AUGUST 30,  
1982

The following rate is prescribed for the customers in the area served by River Bluffs, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single Family Residential	\$22.64 per residence